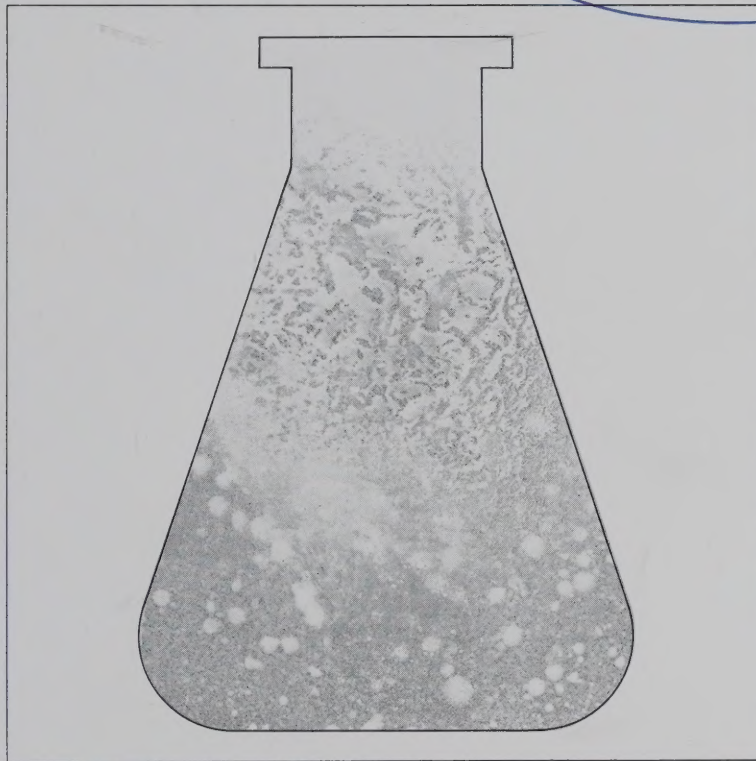


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national drug and
chemical company
of canada limited



BOARD OF DIRECTORS

FERNAND CADIEUX,
President, Dymale Corporation Limited

GRANT H. DAY,
Q.C., Partner, Doheny, Day, Mackenzie & Lawrence

HON. LOUIS P. GELINAS,
Consultant, Geoffrion, Robert & Gélinas, Inc.

MURRAY B. KOFFLER,
Phm. B., President, Koffler Stores Limited

BERTRAM LOEB,
Chairman of the Board and Chief Executive Officer, National Drug and Chemical Company of Canada Limited.

DR. LAZARUS J. LOEB, M.D.
F.R.C.P. (C), Physician

DONALD J. McDONALD,
Executive Vice-President, UNAS Investments Limited

T. R. McLAGAN,
O.B.E., Chairman, Canada Steamship Lines Limited

GORDON J. ODELL,
President, National Drug and Chemical Company of Canada Limited

WARD C. PITFIELD,
President, Pitfield, Mackay, Ross & Company Limited

OFFICERS

BERTRAM LOEB,
Chairman of the Board and Chief Executive Officer

GORDON J. ODELL,
President

L. M. GOELMAN,
Vice-President — Operations

R. B. HALEY,
Vice-President

N. K. HYLAND,
Secretary

L. A. ROBERTON,
Vice-President — Finance and Treasurer

L. D. SCHOENING,
Vice-President — Corporate Planning & Development

P. C. SEABY,
Vice-President — Sales Agencies

HEAD OFFICE

Suite 2222, 1 Place Ville Marie, Montreal 113, Quebec

DISTRIBUTION CENTRES

Halifax, Saint John, Fredericton, Montreal, Ottawa, Toronto, Hamilton, Fort William, Winnipeg,
Saskatoon, Regina, Calgary, Edmonton, Vancouver.

TRANSFER AGENTS

MONTREAL TRUST COMPANY

BANKERS

THE ROYAL BANK OF CANADA, CANADIAN IMPERIAL BANK OF COMMERCE,
THE MERCANTILE BANK OF CANADA

AUDITORS

PRICE WATERHOUSE & CO.

See Cons. Statement →

REPORT OF THE DIRECTORS TO OUR SHAREHOLDERS

Your officers and directors are pleased to report another year of progress throughout the Company's operations. Despite rising costs, lower margins and strong competitive pressures, significant advances were made during the past year.

1.04
40
64 cents in 1967

Sales and earnings. Consolidated sales in 1968 amounted to \$77,126,754 compared with \$69,481,496 for 1967, an increase of 11%. Earnings for the year amounted to \$423,985 compared with \$478,686, a decrease of \$54,701 or 11%. However, in 1967 a gain on disposal of fixed assets contributed \$164,354 or 40 cents per share with no comparable gains in 1968. Earnings per common share in 1968 were 90 cents without capital gain, compared with \$1.04 in 1967 with a capital gain. Retained earnings at the end of 1968 amounted to \$4,445,192, an increase of \$306,662. During the year payment of common dividends was reinstituted. Dividends of \$62,040 were paid to common shareholders and \$50,403 were paid to preferred shareholders.

Operations. The expansion and diversification of your company's operations has taken many positive and progressive forms.

Our efforts on behalf of the retail pharmacist, through our Store Modernization Program, are proving highly successful.

A further effort, aimed at assisting Canada's independent retail pharmacist to maintain his position in the marketplace, is the Banff Management Training Program, which was held in late March, 1969. The enthusiastic response to the program has encouraged us to finalize arrangements which will make the National Drug/Banff School Management course available each year.

Genarex, National's own line of generic drugs has recently been introduced and early indications are that a sizeable share of the generic market will fall to your company.

To maintain leadership in the industry, your company has recently established a Data Centre in Dorval, Quebec, to speed information retrieval for management through its computer facilities.

During the year, for reasons of economy and efficiency, the company's building in Sydney, N.S., was sold, and the Saint John, N.B., Branch was reclassified to the status of a pharmaceutical depot.

Future Outlook. Your Company is now in the final stages of completing its phasing-out program of unprofitable and inefficient operations, including the sale of the manufacturing operation and certain assets of Laurentian Laboratories Limited, agreement to the sale of which was reached on March 25, 1969. The opportunities for continuing growth and profitability remain strong, and your Company plans to continue to provide its goods and services to an ever-widening clientele including major corporation drug chains and the small independent pharmacist. Your Company has done a great deal of work in developing new markets, exploring new ways of doing business without sacrificing the familiar smaller roads of service, and strengthening its management competence at all levels. The planned program of providing assistance to all facets of the retail drug industry should enhance your Company's position as the nation's leading drug distribution specialist.

We would be remiss if we failed to express our genuine appreciation to all levels of management, to our suppliers, to our shareholders, to all our employees, and above all to our valued customers.

Bert S. S. S.

Chairman of the board

Gordon Odell

President

CONSOLIDATED BALANCE SHEET — December 31, 1968

Assets

	Dec. 31, 1968	Jan. 2, 1968
Current assets :		
Cash	\$ 168,956	\$ 116,926
Accounts receivable	8,279,836	6,121,187
Inventories, at the lower of cost or net realizable value	10,774,994	9,826,593
Prepaid expenses	105,138	89,942
	<u>19,328,924</u>	<u>16,154,648</u>
Fixed assets, at cost :		
Land	136,000	136,000
Buildings	1,521,758	1,493,199
Equipment, furniture and fixtures	2,179,905	1,883,245
	<u>3,837,663</u>	<u>3,512,444</u>
Less : Accumulated depreciation	2,055,365	1,954,517
	<u>1,782,298</u>	<u>1,557,927</u>
Unamortized debenture discount and expenses	41,234	45,732
Goodwill, trade marks, etc.	1	1
	<u>\$ 21,152,457</u>	<u>\$ 17,758,308</u>

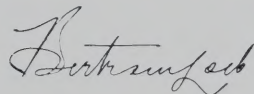
Liabilities

	Dec. 31, 1968	Jan. 2, 1968
Current liabilities :		
Bank indebtedness	\$ 3,167,310	\$ 1,289,161
Accounts payable and accrued liabilities	6,664,171	5,242,299
Income taxes	67,023	3,075
Current portion of long-term debt	220,049	220,049
	<u>10,118,553</u>	<u>6,754,584</u>
Long-term debt (Note 2)	1,804,240	2,024,289
Minority shareholders' equity in subsidiaries (Note 3)	2,270,488	2,346,533
	<u>14,193,281</u>	<u>11,125,406</u>

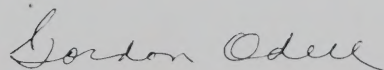
Shareholders' Equity

Capital stock (Note 4)	2,513,984	2,494,372
Retained earnings	4,445,192	4,138,530
	<u>6,959,176</u>	<u>6,632,902</u>
	<u>\$ 21,152,457</u>	<u>\$ 17,758,308</u>

Approved on behalf of the board:



Director



Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1968

	Dec. 31, 1968	Jan. 2, 1968
Sales	\$ 77,126,754	\$ 69,481,496
Cost and operating expenses :		
Cost of goods sold	67,498,644	60,558,201
Operating expenses	8,675,382	8,103,617
Depreciation on buildings and equipment	202,904	198,912
Interest on long-term debt	172,041	179,132
Amortization of debenture discount and expenses	4,498	4,498
	76,553,469	69,044,360
Operating income	573,285	437,136
Deduct :		
Income taxes (Note 5)	143,697	115,987
Minorities' share of earnings of subsidiaries	5,603	6,817
	149,300	122,804
Earnings from operations	423,985	314,332
Gain on disposal of fixed assets	—	164,354
Earnings for the year	423,985	478,686
Retained earnings at beginning of year	4,138,530	3,871,906
	4,562,515	4,350,592
Dividends :		
Preferred shareholders	50,403	50,403
Common shareholders	62,040	—
	112,443	50,403
Excess of purchase price of shares of subsidiaries over net tangible assets acquired	4,880	161,659
	117,323	212,062
Retained earnings at end of year	\$ 4,445,192	\$ 4,138,530

Profit

**CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1968**

	Dec. 31, 1968	Jan. 2, 1968
Source of funds:		
Earnings for the year	\$ 423,985	\$ 478,686
Non-cash charges against earnings — Depreciation and amortization	207,402	203,410
Minorities' share of earnings of subsidiaries	5,603	6,817
	636,990	688,913
Proceeds from disposals of fixed assets, less gain on disposals included in earnings	21,523	158,377
Long-term debt	—	132,066
Proceeds from issue of common shares	19,612	—
	678,125	979,356
Use of funds:		
Purchase of fixed assets	448,798	209,812
Reduction in minority interest	81,648	77,425
Excess of purchase price of shares of subsidiaries over net tangible assets acquired	4,880	161,659
Dividends to common and preferred shareholders	112,443	50,403
Reduction of long-term debt	220,049	220,049
	867,818	719,348
Increase (decrease) in working capital	(189,693)	260,008
Working capital at beginning of year	9,400,064	9,140,056
Working capital at end of year	\$ 9,210,371	\$ 9,400,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

1 Principles of consolidation:

The consolidated financial statements include the accounts and operations of all subsidiaries, including subsidiaries acquired during the year.

All intercompany items and transactions between subsidiaries, including profits in inventories, have been eliminated on consolidation.

2 Long-term debt:

National Drug and Chemical Company of Canada Limited:

5¾% Series "A" serial debentures payable in annual instalments of \$100,000 due May 1, 1969 and 1970	\$	200,000
6% Series "A" sinking fund debentures payable May 1, 1983 with annual sinking fund instalments of \$100,000 due commencing May 1, 1971		1,500,000

Eastern Drug Services Limited :

3% notes payable to former shareholders of a subsidiary due February 28, 1969		31,136
2% notes payable in annual instalments of \$62,500 due September 15, 1969 to 1971 inclusive - guaranteed in equal amounts by Dead River Company, the parent of Estey & Curtis Company, (Limited) and National Drug and Chemical Company of Canada Limited		187,500
Non-interest bearing notes payable in annual instalments of \$26,413 due September 1, 1969 to 1972 inclusive		105,653
		<u>2,024,289</u>
Less: Amounts payable in 1969 shown under current liabilities		220,049
	\$	<u>1,804,240</u>

3 Minority shareholders' equity in subsidiaries:

	Dec. 31, 1968	Jan. 2, 1968
Eastern Drug Services Limited:		
Shares	\$ 499	\$ 499
Notes payable to Estey & Curtis Company, (Limited) subject to the terms of the agreement dated January 27, 1966 with National Drug and Chemical Company of Canada Limited	956,106	956,106
	<u>956,605</u>	<u>956,605</u>
Less: Minority share of consolidated deficit of Eastern Drug Services Limited and its subsidiaries	73,081	74,862
	<u>883,524</u>	<u>881,743</u>
Druggist shareholders in other subsidiaries	1,386,964	1,464,790
	<u>\$ 2,270,488</u>	<u>\$ 2,346,533</u>

Under the terms of the agreement with Estey & Curtis Company, (Limited) the company has the option or an obligation to acquire all of the remaining shares of Eastern Drug Services Limited owned by Estey & Curtis Company, (Limited) at a price based on the adjusted earnings of Eastern Drug Services Limited and the market price-earnings ratio of common shares of National Drug and Chemical Company of Canada Limited - with payment to be made in cash within a period not exceeding one year from the date of such acquisition.

At December 31, 1968 the amount the company would be obliged to pay for such shares, if required to purchase them, would be approximately \$550,000. At such time the company would also become liable for the Notes payable to Estey & Curtis Company, (Limited), with payment to be made in equal instalments over a period of five years.

Capital stock:

Authorized —

244,854 — 60¢ cumulative convertible preferred shares of the par value of \$5 each, the holders of which are entitled to receive \$7 out of the assets of the company before any distribution to the holders of any other shares on liquidation or winding-up of the company.

750,000 common shares of no par value; 149,005 of which have been set aside for the following purposes —

1. 84,005 shares for the conversion rights of preferred shareholders.

2. 25,000 shares for employee share purchase plans, under which there were —

At January 2, 1968 subscriptions outstanding for — 1,325 shares at \$11.53 per share

Subscriptions taken up during the year — 505 shares at \$11.53 per share

Subscriptions cancelled during the year — 820 shares at \$11.53 per share

At December 31, 1968 subscriptions outstanding for — “nil” shares

3. 40,000 shares for employee stock option plans, under which options were outstanding as follows —

Year granted	Option price	Total number of shares under option at January 2, 1968	Total number of shares under option at December 31, 1968	Shares under option by officers and directors who are officers included in total
1965	\$10.80	5,500	4,900	2,900
1965	12.93	10,000	10,000	10,000
1965	12.04	3,595	3,595	750
1966	11.36	12,400	12,400	8,000
1966	9.22	600	400	—
1967	10.35	1,250	—	—
1967	9.22	1,000	600	—
1968	8.00	—	3,760	650
1968	8.33	—	920	—
		34,345	36,575	22,300

The options are granted for a period of five years at prices equal to 90% of the closing stock market price immediately preceding the date of such options. The last quoted market value is generally representative of the range of market values during the thirty days immediately preceding the date of granting of said options.

During the year, options on 1,420 shares were exercised for an aggregate consideration of \$13,789 and options on 1,550 shares expired or were cancelled; the company also granted further options to employees on 4,000 shares at \$8.00 and 1,200 shares at \$8.33 per share, including options on 750 shares at \$8.00 to officers and directors who are officers.

Issued —

244,854 preferred shares of which 160,849 have been converted into common shares

414,790 common shares, including 1,925 shares issued during the year under options and share purchase plans for an aggregate consideration of \$19,612.

Outstanding —	December 31, 1968	January 2, 1968
84,005 preferred shares	\$ 420,025	\$ 420,025
414,790 common shares (January 2, 1968 — 412,865 shares)	2,093,959	2,074,347
	\$ 2,513,984	\$ 2,494,372

Income taxes:

Income taxes which would have been payable with respect to the year ended December 31, 1968 have been reduced by \$175,000 by the application of parent and certain subsidiaries' losses of prior years carried forward for tax purposes.

Dividend restrictions:

Under the terms of the Trust Deed securing the outstanding debentures, the company may not pay dividends (other than stock dividends) on common shares:

(i) in excess of \$645,960; being the aggregate of consolidated net earnings after January 1, 1965, as defined in the Supplementary Trust Deed, less dividends paid since that date.

(ii) that would reduce consolidated net current assets as defined in the Trust Deed, which amount to \$9,210,371 at December 31, 1968, to less than \$6,000,000.

Contingencies and lease commitments:

The company is contingently liable as guarantor of bank loans to customers amounting to approximately \$145,000 at December 31, 1968.

Under long-term leases (exceeding five years) terminating at various dates up to 1991 the company is obliged to pay annual rentals currently aggregating \$406,000, including \$142,000 for retail facilities subleased to druggists.

Management remuneration:

	Year ended December 31, 1968	Year ended January 2, 1968
Remuneration of directors	\$ 9,467	\$ 4,004
Remuneration of officers who are directors	59,836	48,961
Remuneration of other officers	93,930	81,815
Total, included in operating expenses	\$ 163,233	\$ 134,780

The estimated aggregate amount of all pension benefits payable by the company and its subsidiaries to directors and senior officers at their normal retirement age will amount to \$52,540 per annum, based on their earnings as of December 31, 1968.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of National Drug and Chemical Company of Canada Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of National Drug and Chemical Company of Canada Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co
Chartered Accountants.

March 14, 1969

ANNUAL MEETING

The Combined Annual and Special General Meeting of Shareholders will be held at the Auditorium, Mezzanine 2, The Royal Bank Building, Place Ville Marie, at 10:30 a.m., on Tuesday, April 29th, 1969. Shareholders are cordially requested to attend. Those unable to be present are urged to exercise their voting rights by sending along their proxies.

